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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 0359

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAD/AMEMBASSY ABU DHABI PRIORITY 0254

RUEHAK/AMEMBASSY ANKARA PRIORITY 3450

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1268

RUEHKL/AMEMBASSY KUALA LUMPUR PRIORITY 0062

RUEHKO/AMEMBASSY TOKYO PRIORITY 1135

RUEHIT/AMCONSUL ISTANBUL PRIORITY 1704

RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEAAIA/CIA WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

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STATE FOR SCA/CEN, EEB

PLEASE PASS TO USTDA DAN STEIN

ENERGY FOR EKIMOFF/THOMPSON

COMMERCE FOR HUEPER

E.O. 12958: N/A

TAGS: PGOV PREL EPET AJ TX

SUBJECT: TURKMENISTAN: PETRONAS PLANNING FOR EXPANDED PRODUCTION?

REF: A. ASHGABAT 0044

1B. ASHGABAT 0254

1, (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: During a February 23 meeting, Petronas' country manager told EmbOff that his company may seek to fund the Turkmenistan portion of the Caspian littoral pipeline. Although he continues to maintain that Petronas is planning to produce only 10 bcm of natural gas per year, he said the company is planning to build a 48-inch pipeline -- with the potential to transport 20 bcm of gas per year -- from Block I to shore. Whether this is because Petronas is hoping to reach agreement with Canadian petroleum firm Buried Hill to transport gas from Buried Hill's holding in block III to shore (a possibility which Buried Hill's country manager separately told Post he is considering), or Petronas is planning to increase its production, is not yet clear. END SUMMARY.

13. (SBU) During a February 23 lunch to introduce Petronas' new country manager, Mohammed Ridza M. Shariff, the departing country manager, Suleiman Abdullah, indicated that, contrary to what he told Embassy personnel in January (Ref A), the new Caspian littoral (Priaspiky) natural gas pipeline will follow the old Central Asian-Center III (CAC-III) pipeline route. Turkmenistan is planning an all-new construction for its portion of the pipeline that Russia, Kazakhstan and Turkmenistan agreed to build during a May 2007 summit, since refurbishing the old CAC-III pipeline would cost two-thirds of the price of a new one. Petronas may fund the construction of Turkmenistan's portion of the new Caspian littoral pipeline. By contrast, he alleged, there has been a real struggle to line up financing for the Kazakhstan portion of the Caspian littoral pipeline.

14. (SBU) In the meantime, the company has decided to build a 48-inch pipeline from Block I to shore and is currently surveying the proposed route. It expects to put out a construction tender in about three months. Suleiman also confirmed that Petronas has finished assembling a new production platform, which is not yet operational, due to Turkmenistan's unusually poor weather in January. (NOTE: A U.S. official with detailed knowledge of Caspian energy notes there is currently no barge in the Caspian that could lay 48-inch pipe. The largest capacity is 26-inch. END NOTE.)

BURIED HILL NOT IN TOUCH WITH PETRONAS

15. (SBU) Abdullah claimed not to be surprised by the news that the Canadian firm, Buried Hill Energy, has received a contract to work the disputed Block III (Ref B). He said he has heard that the Azeri government did not oppose Buried Hill's seismic imaging activities and suggested that the decision to award Buried Hill the contract may be part of a possible larger plan to exploit Block III's resources being worked out between the governments of Turkmenistan and Azerbaijan. Under this plan, Turkmenistan -- through Buried Hill -- would have unhindered access to the Serdar field, while Azerbaijan would continue to work the Azeri/Chirag/Guneshli fields through BP.

16. (SBU) But, he said, Buried Hill has not been in touch with Petronas yet, including to discuss the possibility of transporting any associated gas that it might hit in Block III onshore through a link-up to Petronas' pipeline from its Block I rigs, though transporting its gas to shore through Petronas' pipeline would be cheaper than building its own

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pipeline. Shariff added that Petronas's pipeline would have excess capacity and could carry gas from Block III, if Buried Hill reaches an agreement with Petronas. Abdullah also confirmed comments by Buried Hill's country manager that all non-Iranian rigs -- including the Maersk Explorer -- currently in the Caspian Sea are booked up for several years to come. While Buried Hill may have its seismic imaging complete in a few months -- and may be finished already if it has only been carrying out 2-D seismic imaging -- the only way it can begin drilling by the end of the year is if it hires an Iranian rig or imports a rig from elsewhere, and rigs are not in plentiful supply.

17. (SBU) COMMENT: Petronas has stated several times that it faces real problems in terms of finding solutions for exporting its gas, and it was willing as recently as January to build its own pipeline north. Its alleged willingness to pay a part or all of the costs for the Turkmenistan segment of the new Caspian littoral pipeline would make sense if it feels the pipeline will resolve its own gas transportation issues. More interesting is Petronas' stated decision to build a 48-inch pipeline -- which Abdullah confirmed can carry up to 20 bcm of gas per year -- between Block I and the shoreline. In the past, Abdullah has suggested Petronas' natural gas production will reach at its peak only 10 bcm per year. If this is so, the pipeline's excess capacity could mean that Petronas is either planning to increase its production, or wants to reach an agreement to transport Buried Hill's gas to shore. END COMMENT.

BIO NOTE

18. (SBU) Mohammed Ridza M. Shariff has worked for Petronas for 15 years, but never before outside of Malaysia. While he did not say much during the lunch, letting Abdullah do most of the talking, he seemed to be more thoughtful and candid than his more garrulous colleague.

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